

Message Text

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SUBJ: U.S.-JAPAN COMPENSATION NEGOTIATIONS -- ROUND
TWO AND A HALF

1. SUMMARY. U.S. AND JAPANESE DELEGATIONS MET
DECEMBER 17 FOR ANOTHER ROUND OF COMPENSATION NEGOTIA-
TIONS. THE JAPANESE PROPOSED A NOVEL (AND LAUGHABLE)
CONCEPT THAT U.S. SHOULD PAY TWICE AS MUCH AS THE COM-
PENSATION VALUE EVENTUALLY AGREED UPON, SO THAT JAPAN,
HISTORICALLY A CREDITOR IN THESE NEGOTIATIONS, WOULD
EMERGE AS A DEBTOR FOR A CHANGE. THE JAPANESE REJECTED
THE U.S. DINNERWARE REVISION PROPOSAL AS COMPENSATION FOR
THE ESCAPE ACTION ON CERAMIC DINNERWARE. END SUMMARY.

2. AT JAPANESE REQUEST, U.S. MTN DEL (MCNAMARA, MALISH)
MET DECEMBER 17 WITH TERADA AND TAMORI OF JAPANESE
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MISSION AND INABA OF MITI'S TARIFF DEVISION, FOR ANOTHER
ROUND OF U.S.-JAPAN COMPENSATION NEGOTIATIONS. WE
EXPLAINED THAT WE HAD NOT RECEIVED NEW INSTRUCTIONS
AND HENCE WE COULD DO LITTLE BEYOND LISTENING AND
REPORTING TO WASHINGTON.

3. SCOPE OF A POSSIBLE SETTLEMENT: JAPAN EXPLAINED THAT HISTORICALLY IN THESE NEGOTIATIONS, IT HAD BEEN A CREDITOR. TO CORRECT THIS LONG-STANDING IMBALANCE, IT PROPOSED THAT JAPAN SHOULD EMERGE FROM THIS NEGOTIATION AS A DEBTOR. JAPAN WAS STILL CONSIDERING WHETHER BALANCES SHOULD BE CALCULATED ON TRADE VALUES OR ON DUTIES COLLECTED BASES, BUT THE U.S. SHOULD MAKE CONCESSIONS FOR TWICE, REPEAT TWICE, THE AMOUNT OWED SO THAT JAPAN WOULD BECOME A DEBTOR FOR A "SHORT PERIOD" INTO THE FUTURE. JAPAN OBSERVED THAT THE U.S. COMPENSATION SHOULD BE PLACED IN EFFECT BY DEEP CUTS MADE WITHOUT STAGING, JUST AS U.S. IMPORT RELIEF HAD BEEN PLACED IN EFFECT BY TARIFF INCREASES WITHOUT STAGING. IN SUBSEQUENT DISCUSSION, JAPANESE INDICATED THAT IT ENVISAGES U.S. COMPENSATION CONCESSIONS COMING INTO EFFECT IN 1977. THESE U.S. CONCESSIONS WOULD BE SUFFICIENT TO CLEAR THE 1971-77 BALANCE SHEET (ASSUMING NO FURTHER ESCAPE ACTIONS ON EITHER SIDE). SINCE 1977 TRADE DATA OBVIOUSLY WILL NOT BE AVAILABLE IN ADVANCE, JAPAN PROPOSED USING AVERAGES OF 1974-75 TRADE DATA AS A PROXY FOR 1977. FURTHER, THE U.S. WOULD OVERCOMPENSATE FOR U.S. ESCAPE ACTIONS IN 1971-77 SO THAT JAPAN WOULD HAVE A DEBIT BALANCE EXTENDING SOME UNKNOWN PERIOD INTO THE FUTURE.

4. U.S. DEL RESPONDED TO JAPANESE "OVERCOMPENSATION" PROPOSAL WITH A PRONOUNCED JAW-DROP. AFTER RECOVERY, U.S. DEL OBSERVED THAT COMPENSATION NEGOTIATIONS OFTEN INCLUDE A QUALITATIVE FACTOR AS WELL AS THE TRADITIONAL MEASUREMENTS OF TRADE VALUES AND DUTIES COLLECTED. LIMITED OFFICIAL USE

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MOREOVER, THE U.S. HAD NOT YET MADE A DECISION AS TO HOW THE TERMINATION OF THE STAINLESS STEEL FLATWARE ESCAPE CLAUSE ACTION SHOULD BE TREATED. WITH REGARD TO DEPTH OF CUT AND STAGING, WE SAID THAT U.S. WOULD BE BOUND BY THE LIMITATIONS IN SECTIONS 101 AND 109 OF THE TRADE ACT. (TAMORI LATER SUGGESTED JAPAN WOULD CONSIDER STAGED, SHALLOWER CUTS ON A LARGER NUMBER OF ITEMS.&

5. BASIC DATA: AS NOTED, THE JAPANESE ARE CONSIDERING EITHER TRADE VALUES OR DUTIES COLLECTED TO COMPUTE BALANCES AND COMPENSATION AMOUNTS. JAPAN ACCEPTS THE U.S. CORRECTED DATA FOR CERAMIC DINNERWARE AND BALL BEARINGS, AND URGED US TO COMPLETE OUR CALCULATIONS ON HSEET GLASS, COTTON TYPEWRITER RIBBON CLOTH, AND WILTON CARPETS.

6. CERAMIC DINNERWARE SCHEDULE REVISION: JAPAN SAID

IT COULD NOT ACCEPT THE U.S. PROPOSAL THAT DUTY REDUCTIONS RESULTING FROM A REVISION OF THE U.S. DINNERWARE SCHEDULE CONSTITUTE COMPENSATION FOR THE U.S. ESCAPE CLAUSE ACTION ON DINNERWARE BECAUSE (A) JAPAN EXPECTED EXPORTS OF CERAMIC DINNERWARE TO DECREASE; ITS FUTURE EXPORT INTEREST WOULD BE IN THOSE TARIFF ARTICLES WHERE PROPOSED RATES WOULD EITHER BE INCREASED OR UNCHANGED; (B) MITI HAD ANALYZED THE PROPOSAL AND CONCLUDED THAT THE DUTY SAVINGS FOR 1975 WOULD HAVE BEEN ONLY HALF OF WHAT THE U.S. HAD CALCULATED (THEY PROMISED TO SUBMIT THE DETAILS OF THESE COMPUTATIONS LATER; AND (C) REVISION AND SIMPLIFICATION OF SCHEDULES SHOULD BE HANDLED UNDER ART. XXVIII AND HENCE WAS NOT ACCEPTABLE FOR THESE NEGOTIATIONS DEALING WITH ART. XIX ACTIONS.

7. U.S. MTN DEL ASKED A SERIES OF QUESTIONS TO PROBE THE FINALITY OF THE REJECTION. JAPANESE SAID THEY LIMITED OFFICIAL USE

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ARE STILL INTERESTED IN U.S. RATE REDUCTIONS ON CERAMIC DINNERWARE; THEY INTENDED TO FOLLOW COURSE OF U.S. NEGOTIATIONS WITH OTHER SUPPLIERS AND WOULD CONSIDER ITS WORTH TO JAPAN AS IT DEVELOPS. U.S. MTN DEL, SEEING THAT THE DOOR WAS CLOSED AND LOCKED BUT THAT THE KEY WAS NOT THROWN AWAY, REPLIED ACCORDINGLY. WE REPLIED THAT THE U.S. WOULD PRESUMABLY GO AHEAD AT SOME POINT WITH A REVISION BUT WE DID NOT ANTICIPATE BILATERAL DISCUSSIONS WITH OTHER SUPPLIERS IF THE JAPANESE WERE NOT INTERESTED. U.S. MIGHT INSTEAD SIMPLY PROCEED TO REVISE ITS DINNERWARE SCHEDULE WITHOUT BENEFIT OF JAPANESE VIEWS.

9. COMMENT. REJECTION OF U.S. DINNERWARE REVISION PROPOSAL AS COMPENSATION WAS NOT UNEXPECTED SINCE THE ASSOCIATED RATE INCREASES MADE THE PROPOSAL PRESENTATIONALLY DIFFICULT FOR JAPANESE TO ACCEPT. THE JAPANESE PROPOSAL FOR OVERCOMPENSATION IS PUZZLING. IF IT IS DESIGNED TO SPEED-UP THE NEGOTIATIONS, IT WILL HAVE THE OPPOSITE EFFECT. WE HAD EXPECTED JAPAN TO FOLLOW UP ITS LISTS OF PRIORITY ITEMS SUBMITTED AT THE LAST SESSION WITH SPECIFIC REQUESTS FOR RATE REDUCTIONS. U.S. MTN DEL HAD BEEN PREPARING RECOMMENDATIONS FOR TPSC CONSIDERATION, BUT THEY ARE NOW BEING REVISED IN LIGHT OF THE NEW DEVELOPMENTS.
END COMMENT.WALKER

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